RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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May 11, DJIA 830.56; PTI 938; A-D Ratio –20.54
May 18, DJIA 841.91; PTI 952; A-D Ratio –20.18

THE PICTURE: Interest rates have been exerting their bearish pressure on all markets. Long-term Treasury bonds are currently yielding 9.2%, highest level in history. Moody's Aaa (highest rated) corporate bonds currently yield 9.50%, a record level and the highest yield in quality US bonds since the Civil War.

Meanwhile, the biggest guessing game in town is a game called, "When will interest rates top out?" On the negative side, Uncle Sugar has a mass of financing and re-financing scheduled for the second half of 1979, and unlike last year (or the year before) we cannot expect foreigners to buy up our debt this time. Why? Because they are too busy selling dollars to support their own weak currencies or simply getting rid of dollars by selling into dollar strength (since foreigners are already overloaded with greenbacks).

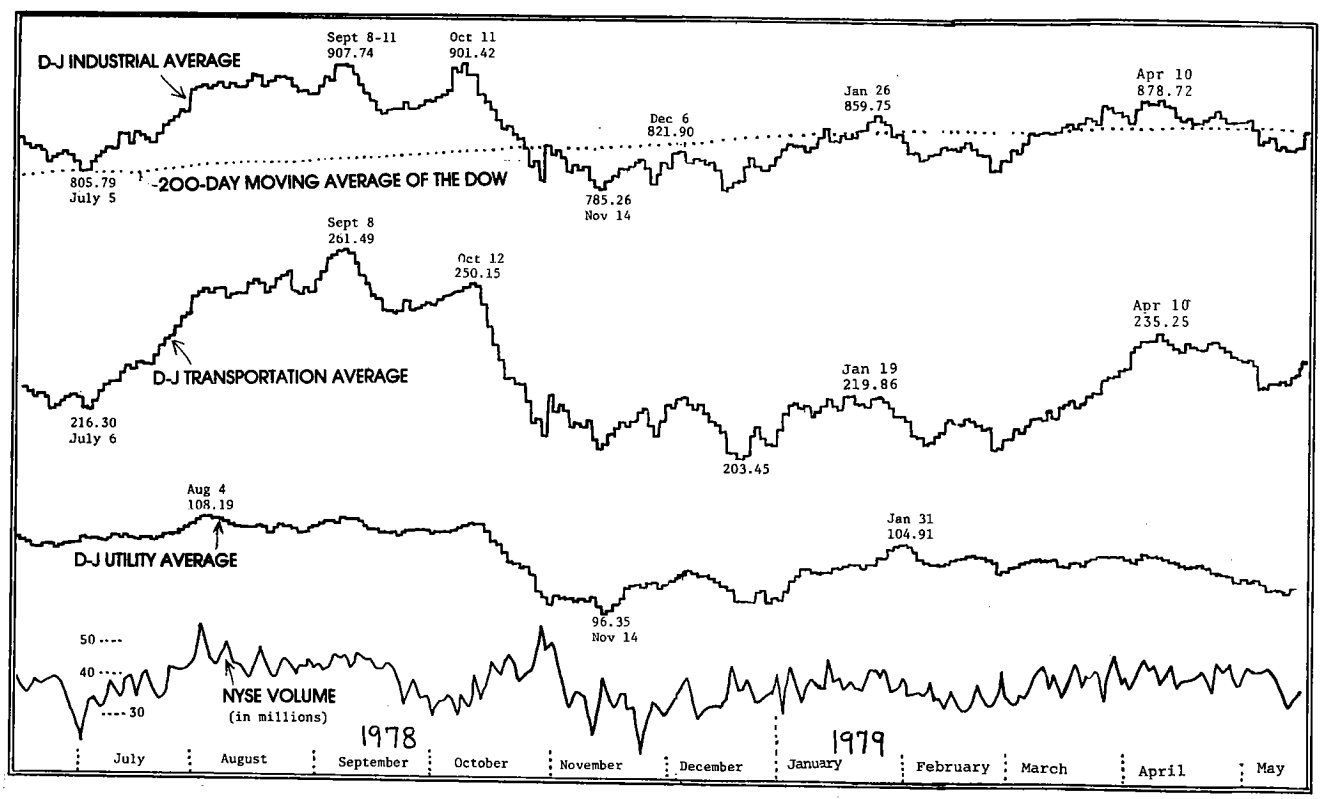
Then there's the other side of the coin, and a side that could constitute the surprise of the year. On page 2 you will see my chart of the widely-followed CRB Commodity Index and the D-J 20 Bond Average (the Bond Average is inverted). Both of these items have been hugging rising trendlines for the last 8-10 months. On May 17 the 20-Bonds broke below the trend-line, signalling an easing of interest rates and higher bond prices. This is a hint from bonds that they see inflation ebbing. Commodities have not confirmed yet, and it will be interesting to see if they do.

In celebration, the stock market (May 17) exploded with the Dow up over 17 points. While one robin does not make a Spring, it is clear that the stock market grows ecstatic at the slightest hint that inflation may be winding down. But ironically, any conditions powerful enough to bring down inflation would also bring on problems of their own. The real story is just beginning to emerge.

Here in wheel-happy California we have been waiting in hour-long gasoline lines. My guess is that this is just a warning of things to come in the developing energy crisis. It is easy to say, "Yeah, I've been there before, another crisis. What are they cooking up for tomorrow, an egg shortage?" But I'll repeat, this nation has been *over-consuming* ever since the early 1940's. That over-consumption cannot go on. We've gone over our heads in every conceivable direction, and we've used up our natural resources at a shameless rate. Now the nation is deeply in debt and we're dependent on other nations for an increasing portion of our daily "needs." Something will have to give. What I think is going to give is our STANDARD OF LIVING.

In the years ahead I see a deflation in the American standard of living, a deflation in the great American ego (this started during Vietnam), and finally a deflation in prices as corrective market forces take their toll.

Right now, it bothers me that the American consumer is loaded up to his ears in debt. He's "prepared" as never before for perpetual inflation—and suddenly the California gas lines. Last weekend I drove around San Diego, and I was amazed to see the tremendous drop in traffic in all areas. The usually crowded shopping centers were sparsely populated, the restaurants were half-filled, the freeways were wide open and underpopulated, and even the airport was quiet. From all directions we in Califor-



nia hear that business is slipping, and I'm wondering if the "California Crisis" won't spread across the nation.

If so, then the US economy faces a slowdown, possibly a greater-than-expected slowdown. But the last thing a man who's over his head in debt needs is a slowdown in the economy. What the debtor needs is easy money, depreciating dollars and endless inflation. So it will be interesting to see how it all works out. The economy, like the market, often fails to oblige the majority.

"What about the investor?" you ask. "What does the investor do if the situation you describe comes about?" As I've said before, the investor's only intelligent defense against this barrage of problems is DIVERSIFICATION. What do I mean by diversification? First, such a program must include liquidity, and that means Treasury bills or a liquid assets fund. On top of that, I have been recommending 10% of assets in gold coins. Going further, owning your own house may be considered part of a diversification program. I'm not enamoured of real estate at this time, but I do think your own home can provide peace of mind, particularly if you have a very manageable mortgage (or even no mortgage). Finally, TIMING is a vital part of your diversification program, and timing is an integral partner of liquidity. Thus, while a major portion of our assets may be in T-bills plus gold now, an important market bottom will find us switching rather heavily into equities.

I've always (with appropriate blushing) admitted that if I absolutely KNEW what was coming up, I'd never advise diversification in investments. I'd say (as I did many years ago) "OK, 100% in equities" or "100% in long-term bonds." Those days are gone forever. Today, we have problems of deteriorating dollars, a Government which is confiscatory, politicians who are willing to legislate our assets and incomes away, and international situations which can alter the shape of the US economy literally overnight. Under such circumstances, diversification while far from the perfect answer, is the only intelligent answer I know of.

Today every form of investment becomes a kind of "insurance." I know from talking to hundreds of investors that people are truly not thinking in terms of "making a fortune" in the market now. They are thinking of (1) How the devil they are going to make ends meet, (2) How they can hold on to their purchasing power, and (3) How they can safeguard their assets. These are all symptoms of a nation and an economy under seige. And leave us not kid ourselves, we are besieged today.

Carter Rescued: Ah, the irony of it. With President Carter's so-called "anti-inflation program" in tatters, along comes the oil and gas shortfall, and guess what–the economy is now slowing down! This gives Carter the *perfect escape mechanism*. For he can now blame the greedy oil companies, the hard-hearted Arabs and the gas-crazy US consumers for the slowdown. As for the giant, bumbling Government bureaucracy, who can blame them? Didn't they do their best in the face of insurmountable odds!

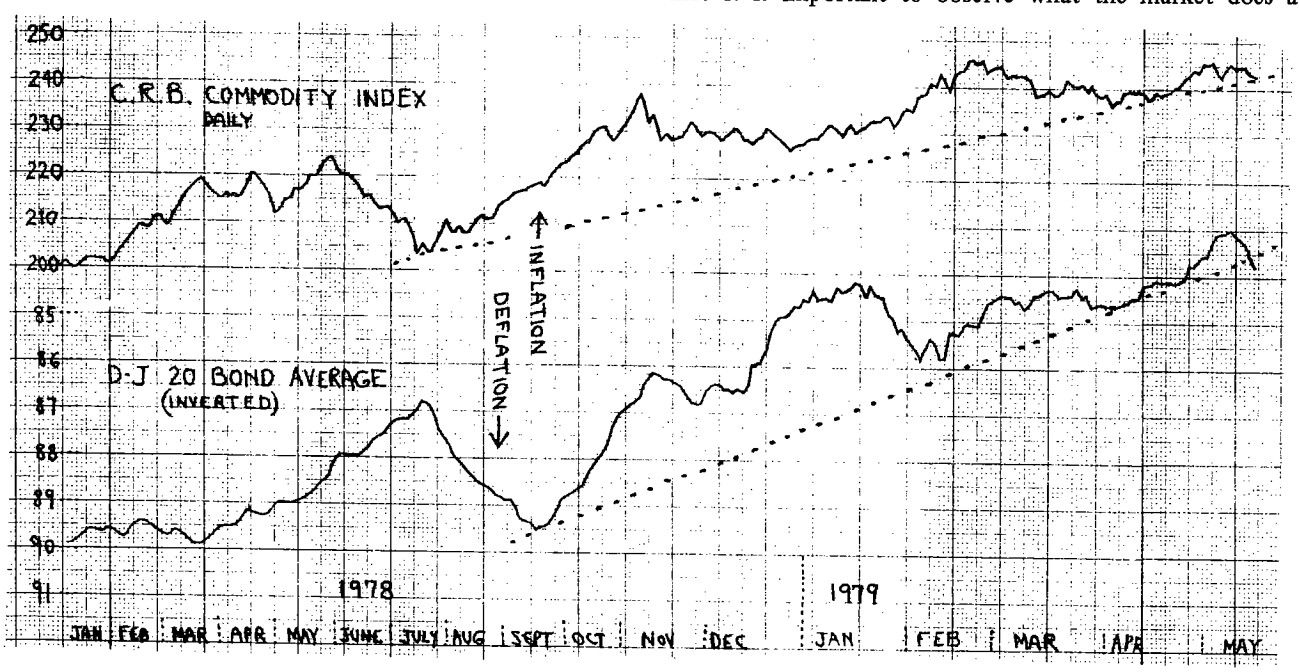
So the gasoline lines may give Carter and the boys the slowdown in the economy (and maybe in inflation) that they have been hoping for. But wait, a shadow is lurking in the wings. That shadow is the possibility that the oil mess could get out of hand. There is the possibility of a strike in the Khusistan oil field of southwestern Iran. And there could be trouble from Saudi Arabia. I include two clips that were buried in last week's newspapers. So far, everyone is taking the gas shortage and higher gas prices as an inflationary happening. I look on it as potentially deflationary–particularly if it proves long-lasting.

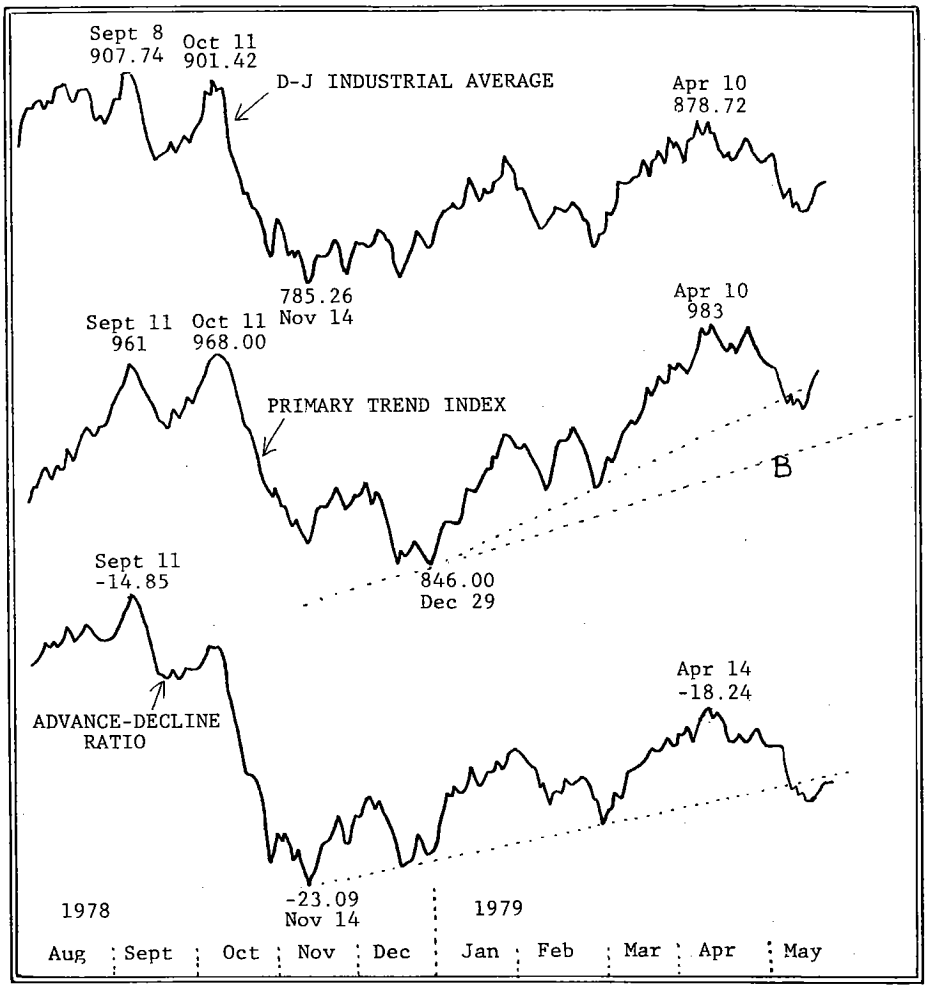
(The Associated Press quoted oil industry sources in New York yesterday as saying Saudi Arabia is cutting back on oil sales to the U.S. companies that are its biggest customers. The sources said the reduction will cut the quantity of oil sold to Arabian American Oil Co., known as Aramco, a consortium of Exxon, Mobil, Standard Oil of California and Texaco, from 7 million barrels daily to 6.5 million.)

One week after Saudi Arabia's shocking ouster of the CIA station chief in Jeddah, Secretary of State Cyrus Vance threw a new verbal punch at the oil-rich Arab state which angered White House foreign policy aides.

The White House was reeling from the impact of the unprecedented ouster of the Central Intelligence Agency (CIA) station chief when Vance told the House Foreign Affairs Committee that "clear and sharp differences" were developing between the United States and Saudi Arabia. Taken together, these developments have brought the two old allies to their lowest state ever.

THE MARKET: I believe (along with some other analysts) that it is important to observe what the market does at the





halfway (50%) level of major preceding advances or declines. For instance, the rise from the November low of 785.26 to the April high of 878.72 was 93.46 Dow points. The halfway level of that rise was 831.99. I therefore considered it important to see what the Dow would do (in terms of 831.99) on any decline. On May 11 the Dow sank below the 831.99 level, dropping to 825.02 on May 14. I considered this action to be negative, but on May 17 (as bonds popped upward) the Dow again surged above the halfway level, closing at 842.95.

To take the 50% principle one step further, the entire 1978-79 rise began from a February, 1978 low of 742.12. The advance from that 1978 low to the 878.82 (April 10, 1979) high was 136.60 points. The halfway level of that advance is 810.42. So we have another very important benchmark to watch in case of further market weakness.

At this point I might as well add that what we have been seeing throughout 1979 so far is what I term a trading market. Trading markets are sensitive, nervous, usually news-oriented markets, and they are markets that are remarkably adept at separating stockholders (particularly traders) from their hard-earned cash. The fact is that the Dow was at 901.42 last October 11 and at 785.26 a month later on November 14. All the action since then has been confined to rallies and declines between those two points. The resolution of that trading range, in other words, has not yet been seen.

So much for the Averages and the efforts of traders. Turning to the chart of the Dow, the Primary Trend Index (PTI) and the A-D ratio, we see some changes from the last report. The PTI is my own amalgam of 8 critical Averages and indicators. It is constructed so that major advances (in the PTI) must have the effect of pushing (or dragging) the rest of the market with it. Conversely, major and persistent declines will lead (or drag) the rest of the market with it. The PTI is not easily "fooled" by news, manipulation, or the strength or weakness of a single indicator.

In the last two Letters I outlined the divergence that had built up since last September between the Dow and the PTI. In a sentence, the Dow has been most reluctant to follow the PTI to new recovery highs. Divergence is a great "technical sin" and it must be corrected. The "October massacre" (October 11 to November 14) was the first result of the divergence. On April 10 (with the divergence still continuing) the market again headed lower. On May 8 the PTI showed some signs of technical weakness by breaking below the trendline (see chart) connecting the December and February lows.

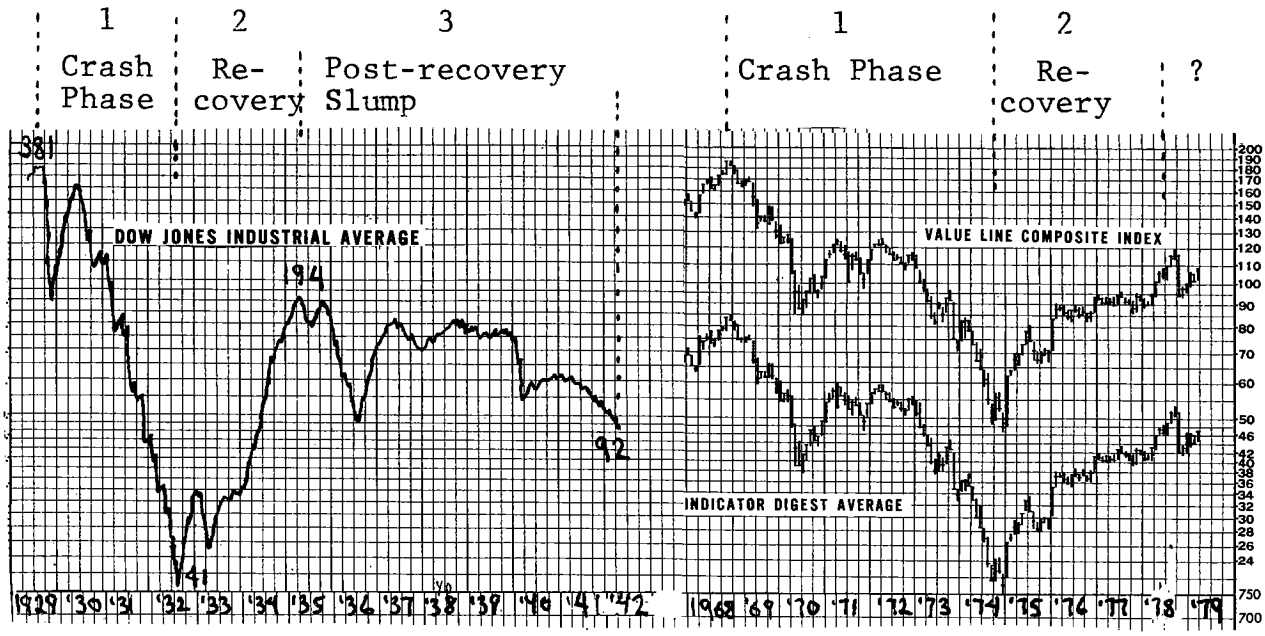
On the chart I have drawn a much more important major PTI trendline (marked B on chart). This is the major 15-month trendline connecting the February, 1978 low and the December, 1978 low. This is the trendline which defines the entire advance in the PTI since early-1978. If this trendline is violated, I would say that the technical situation will have changed from doubtful to bearish.

Turning to the advance-decline ratio, the November 14 low was actually below the 1978 low, so that this low of minus 23.09 on my chart is one of major importance (it represents the lowest point on the A-D since November, 1977). At its latest reading, the A-D has lost slightly more than half the feeble 4.85 points it gained between November 14 and April 14. Note on the chart that the A-D ratio has also violated its rising trendline. I rate the A-D performance as weak, and moving towards a bearish designation. The average stock on the NYSE has made little progress during 1979.

Conclusion: The picture since the last Letter is one of some technical deterioration, although no major supports have been broken–yet, either on the Averages or the PTI (but I am watching closely to see whether trendline B on the PTI holds). The direction of the PTI from here will be critical in judging the strength or weakness of the market.

WHERE ARE WE? Mr. Sell and Mr. Russ are having one of their weekly arguments (let's call them debates). They're on their fourth cup of Sanka, and Mr. Sell is slowly reaching for a chart.

Sell: Here's where I think we are. I've drawn in (page 4) the 1929 to 1942 period, and I want to compare that period with 1968 to 1979. During 1929 to 1932 the Dow lost 89% of its value in the worst market crash in history. Following the crash phase, we had what I term an "automatic post-crash recovery" and of course we know that every crash is followed by a recovery–the greater the crash, the greater the recovery. We call the recovery that came after 1932 the bull market of 1932-



37. Call it anything you want, it was a normal upward retracement of the crash, and it was a profitable move.

After the 1932-37 bull market, Wall Street was treated to a second collapse. The 1937-38 crash wasn't as bad as 1929-32 but it was bad enough. It took the Dow back to 98. Then a new recovery set in, but by 1942 the Dow was back at its lowest level since 1932. I call the 1937 to 1942 action the "post-recovery slump." Finally, by 1942, in the face of all kinds of bad news, the market was back in equilibrium, and a big bull market was born. The whole period of 1929 to 1942 took 13 years, which as you know is a Fibonacci number.

Russ: Very interesting, and now you're going to try to tell me that the 1929-42 period had some similarity with what's happening today? Well, I . . .

Sell: Hold it, let me go on. The unweighted averages such as Indicator Digest, and the geometric averages such as Value Line, they hit their highs in 1968. Following that, as you can see on the chart, we had a terrific smash down to the 1974 low. That whole crash period took six years or twice as long as the 1929-32 crash period. Then we had a recovery from the 1974 low to the 1978 high (the Dow topped in 1976). The recovery took four years, whereas the 1932-37 recovery took five years.

Now here's where I want you to follow me closely. I claim that the 1974 to 1978 recovery was strictly an automatic post-crash recovery, the same kind of recovery that has followed every market crash in history. Furthermore, based on past precedent I believe that we will shortly (if we have not already) go into a phase (such as 1937-42) which I term the post-recovery slump. This is a phase which is usually accompanied by a lot of bad news (often international bad news and wars as was the case during 1937-42). When this post-recovery phase is over, the market should be back at equilibrium and ready for a new bull market.

Russ: I have a few arguments to bring up, but before I do, one question: how long do you think your post-recovery slump will take before the market hits bottom or equilibrium as you call it?

Sell: Well, the 1929-42 phase took 13 years, and the phase that began in 1968 could take 13 years as well. If that holds, then the post-recovery slump could be over around 1981. Anyway, that's a logical time frame, and I'll stay with it until I get a better idea.

Russ: You see, I think what you're saying is interesting, but I just don't see it your way. Look, we have been going through the biggest orgy of debt building in history, a period that began around 1942 (when your post-recovery slump ended). I won't even go into the debt build-up figures except to say that they almost defy comprehension. At any rate, we know that ultimately all debt is either paid off or reneged on. We know, therefore, that the US and its citizens will either pay off some of the debt they owe–or the nation will reneg and go bankrupt. Either way, the markets are going to be in trouble. If we pay off some of the debt, that's going to mean contraction in the economy and huge adjustments. If we reneg that's going to mean a period of chaos . . .

Sell: Wait a minute. You forgot about inflating the debt away. How about going along the way we're going now, just reducing the debts via inflation!

Russ: I just don't think that course is going to continue, and I'll tell you why. First, it's immoral, it amounts to legal thievery, and I believe the American people are basically moral people. I don't think they will stand for a policy of perpetual inflation. Second, the inflation policy won't work in the US because we have (unlike the banana republics) huge capital markets–our bond markets. As inflation accelerates, the bond market will commence to cave in, then crash, and it will take the stock markets and the commodity markets with them. Before you know it, we'll be in a deflationary depression, despite ourselves, despite the Government.

So, to get back to my thesis, what I'm saying is that the markets have not, at this juncture, discounted the four decades of inflation and fat that has been built into this economy. I believe that the real liquidation in both the markets and the economy–has not yet been seen. We've never seen genuine distress selling of blue chips, the kind of selling that accompanies the final phase of every major bear market. We haven't seen the wringing out of the real estate markets, the collapse of collectible prices. No, I'm of the opinion that what we saw during 1968 to 1974 was the

second phase of a huge bear market, and the third or final (liquidation) phase is still to come.

At the 1974 bottom the yield on the Dow was about 6¼% while the yield on the D-J bonds was over 10%. At the final bear market bottom I expect to see the old (normal) yield relationship return. The yield on the Dow 20 Bonds is now 9.35%. But at the final bottom of the coming bear market, I expect the Dow to yield more than the bonds and I would expect such action to come in an atmosphere of deflation. Thus, the Dow could yield anywhere from 10% to 15% at the final bottom. After all, if inflation ends (and I think it will), where will stocks get off yielding less than bonds?

Sell: All I can say, my friend, is that I hope you're wrong. A Dow yielding 15%! They'd inflate us to heaven before they'd let that happen.

Russ: You've got it wrong. They won't "let" it happen, it will just happen. In a true bear market, things get out of control. That's what I'm talking about, an out-of-control period where the debt unwinds, the markets cave in, the Government is helpless and deflation takes over. I agree that nobody wants deflation, they just want inflation to go away without producing any pain. But we pay for our follies in this world. Did Vietnam go away without any pain? Did World War I or II go away without pain? Is the energy crisis going away without pain? And the answer is that the inflation folly won't go away without pain. No, the pain will be called deflation, and when it comes it's going to be an out-of-control shocker. If you think the Government is helpless today in the face of inflation, then brother, wait until old man deflation comes in.

Sell: I don't think it can happen, so I'll just stick to my scenario.

Russ: And I'll stick to mine.

UTILITIES, BONDS: Veteran readers of this service know that I have been writing about my utility-bond indicator for over a decade. The rule is simple enough. Whenever the D-J Utility and Bond Averages are moving up *together*, the odds are very high that the rest of the market will move up with them. The converse is true when the Bonds and Utilities are going down together.

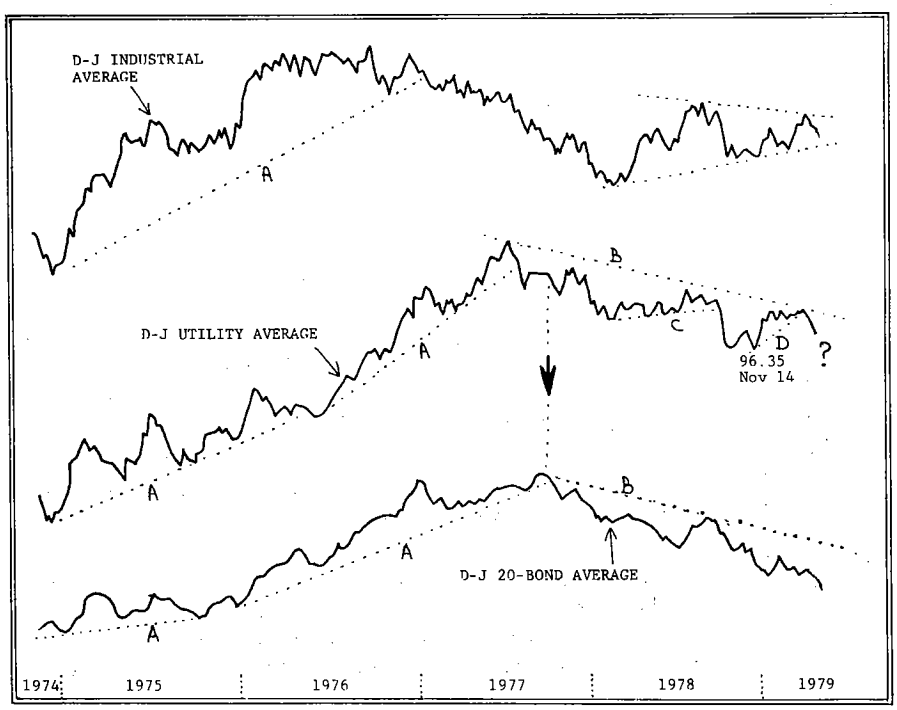
Why is this "rule" valid? My theory is that the bond average is a function of interest rates, the credit markets and the financial condition of the nation. There is only one thing more bullish for stocks than a rising bond market, and that is a rising bond market that is accompanied by a rising utility market.

What makes the Utilities so important? The utilities reflect the mood of the Government and the regulatory agencies, they reflect the condition of the money markets, they reflect the trend of interest rates and they also are a function of the economy itself (in that a rising economy requires more energy).

At any rate, past history has demonstrated to me the wisdom of staying on the right side of the bond-utility trend. Referring to the accompanying weekly chart, note that the rising trendlines on both Bonds and Utilities held in force all during 1975, 1976 and into 1977. In September, 1977, the bond average reversed its rising trendline, thereby confirming the previous trendline reversal on the Utility Average. I have marked this "sell signal" with a down arrow.

Following the down-designation, note that two major bearish trendlines held the Bonds and Utilities in their grip. The bear trendlines are each marked with a B on the chart. During 1978 the Utilities diverged with the bonds for a period, rallying while the Bonds continued down. This divergence is identified by little rising trendline C. Again in 1979 we have a divergence with Utilities rallying while Bonds continued down. This second divergence is marked with a D. During both of these schizophrenic movements, the Dow and the rest of the market advanced.

Interestingly, the Dow during the period of early-1978 to the present, traced out a large symmetrical triangle. Such a triangle (from a technical standpoint) indicates that the forces of supply and demand are very close to equilibrium, which is about the way I would diagnose the current situation. An advance above 880 would serve to take the Dow through the upper triangle limits while a drop below 820 would take the Dow below the lower limits of the triangle. The current picture finds the Dow about in the middle of the triangle.



What I have been suggesting is simply the wisdom of staying on the right side of the Bond-Utility trends–or shall I say the JOINT trends of the Bonds and Utilities. History shows that there are few times when the Dow and the mass of stocks will diverge from an established trend in both the D-J Utility Average and the D-J 20-Bond Average.

All of which brings us to the present. The whole situation is particularly interesting today because of the following reasons: (1) The D-J 20 Bond Average is now at a new low, thus providing half a bear signal under the bond-utility concept. (2) The Utility Average made its low on November 14 at 96.35. If the Utility Average drops another 2 points it will have confirmed the bearish action of the Bond Average. (3) If the Utility Average does confirm the new low in the Bond Average, I would expect the Dow and the rest of the market to turn decidedly weak.

Note that the Dow is now nearing the lower trendline of the symmetrical triangle. A value of 815-820 will take the Dow decisively below the triangle. In that case, I would expect a further major decline in the Dow.

Conclusion: Watch the Utility Average carefully. The November low of 96.35 is the critical point. If that low is broken during the weeks ahead, expect a major decline in the market to get underway.

NOTES & QUOTES: Good news at last: there is obviously the hint of a world swing away from socialism and back to conservatism and free enterprise. The British elections (Margaret Thatcher) was brick number one. Brick number two will be in place if Joe Clark of Canada's Progressive Conservative Party can knock Liberal Prime Minister Trudeau out of the box. If that happens (and I feel there is a chance it will) then who's next? It could well be Jimmy Carter, America's "Mr. Wishy-Washy."

* *

In his latest report, C. V. Myers (642 Peyton Bldg, Spokane, Wa. 99201) opts for America's only almost unlimited source of energy–coal. The US, says Myers, is the "Saudi Arabia of coal." There's no question of that, since the US has an estimated 200 billion tons of coal underground. The time is growing short, and there's no question in my mind but that the US should rush headlong into coal technology. S. Africa is now *using* very advanced coal technology, and there's no reason why we can't follow. Except–except for bureaucratic red tape and environmental interference.

* *

Talk of "windfall taxes," how does this strike you. I understand the oil companies make about 3 cents a gallon on gas, while the Government takes about 20 cents for each gallon of gas. Decontrolling the price of US oil will therefore give the US Government another giant windfall tax. The shame of it is that President Carter, faced with the total collapse of his feeble anti-inflation program, has been looking about wildly for a scapegoat. And he thinks he has found it–in the oil companies. But I honestly don't think the public is buying this one. Why? Because they're even more suspicious of the Government than they are of the oil companies. A sad commentary . . . .

* *

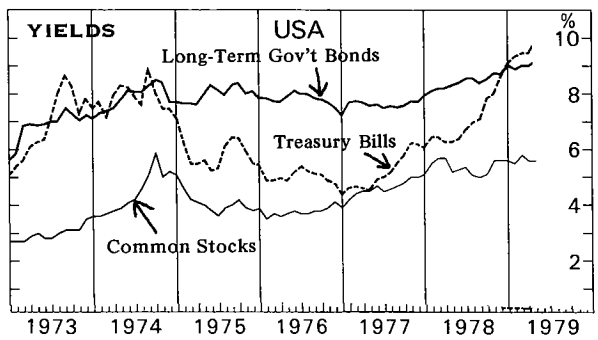
Friend Bob Prechter has left Merrill Lynch and has started an Elliott Wave report (he's co-author with AJ Frost of the new Elliott book). Both Bob and AJ believe we are nearing the end of a long period of pessimism, with a new up-wave and era of optimism to follow. You may believe it or you may not, but the Prechter-Frost thinking is formidable, and it will pay to keep an open mind, a very open mind, over the period ahead.

* *

Don't ask me why, but I've gone on a Hollywood reading binge. Just read the autobiography of Jean Tierney and the biographies of Alan Ladd (fascinating) and Montgomery Clift (a terrific job of writing). All three were great successes in films, all three led miserable, tragic personal lives. I was particularly interested in the Clift biography (which I recommend highly, since it is the study of a perfectionist who was tops in his craft). But perfectionism is the perfect self-torture game (one can never live up to one's own expectations for being perfect).

* *

Sometimes you know something, but when you see that same something expressed on a chart, you do a double-take. This chart made me blink (chart from Int. Capital Perspective, Geneva, Switz). Here we see long-term Government bonds yielding far more than common stocks. This is the so-called "negative yield spread," and it's a product of years of inflation. On top of that, we see the "inverted yield curve" with short-term yields (represented by T-bill yields) crossing above long-term yields (represented here by Treasury bond yields). This inversion occurs when the pressure in the money market is so intense that short-term rates are driven above long-term rates. There's only one word that describes this chart. The word is "sick."



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Just received a letter from AJ Frost, the grand master of Elliott Wave Principle and co-author of the new Elliott book. As for gold Frost thinks gold's upside potential is "just out of this world, but first I would anticipate a reaction." Frost believes gold's leg 5 ended last October and that we have been in a "flat" correction since (flat corrections often see the B leg go to a new high). If I read Frost correctly, he is looking for a correction down to around 200 or so.

Frost sees gold as being in a super-cycle with major wave I ending at the 1974 high, corrective wave II ending in 1976 and major wave III now underway (but with sub-wave 1 having ended last October). I'll go into Frost's views in detail in a forthcoming Letter.

* *

I was glancing over a little booklet of amortization and payment tables. Want to know how compounding works? Today in California many mortgages are going for 11¼%. If a man puts down $50,000 on a $150,000 house and takes out a $100,000 mortgage (monthly payments at 11¼% rate), at the end of 30 years he will have paid out $400,000 for that house. That's a lot of bread for a $150,000 house.

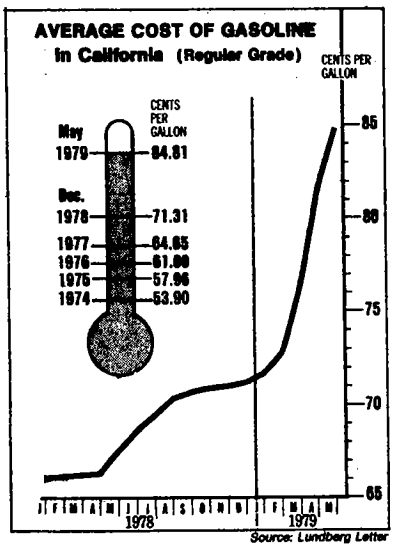
* *

Trade Levels (PO Box 725, La Canada, Ca 91001) has done a good deal of study on stock market cycles. They note that this summer five of six prominent market cycles move to lows. The five are the 10-week cycle, the 20-week cycle, the 9-month cycle, the 18-month cycle and the 4½-year cycle. The day all those lows hit–July 24. Says Trade Levels, "The last time a similar nesting of cycle lows occurred was December, 1974." Well, as I have been saying, July shapes up as an interesting month for anyone who has some cash!

* *

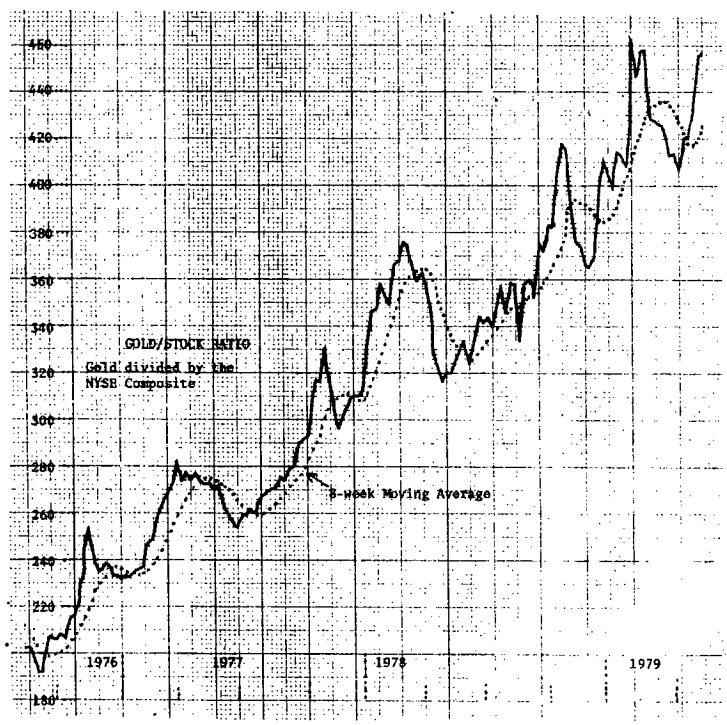
Movies are one of the best mirrors of the thoughts and sentiments of the times. The explosion of horror and outer space pictures now tells us that Americans are feeling isolated, pessimistic, ready to believe and relate to the concept of blood in the streets,

fiends from "out there," terror in the cities. First it was the comparitively mild "Jaws," but this year it is "The Warriors," "China Syndrome," "Deerhunter," "Midnight Express," and the blood-curdling "Dawn of the Dead." Coming up, a shocker from outer space (fated, I believe, to be a blockbuster) "Alien." But to Californians, the greatest horror of all is this chart pictured below!



GOLD: This is a chart that tells holders of common stocks a rather bitter story. What you see here is a relative strength chart–gold compared with the broad NYSE Composite Index (the latter includes all NYSE common stocks). The heavy line is the weekly ratio of gold and the NYSE Composite (gold divided by the Composite, Thursday closings). The dotted line is an 8-week moving average of the gold/stock ratio.

The chart is self-explanatory. It tells us that ever since late-1976 gold has been outperforming common stocks. This trend is almost three years old, and it is a sad commentary on the US economy and American business. The chart is telling us that investors have been opting for the safety of gold, rather than the productive



capabilities of American corporations. Draw any conclusion you like. You all know mine.

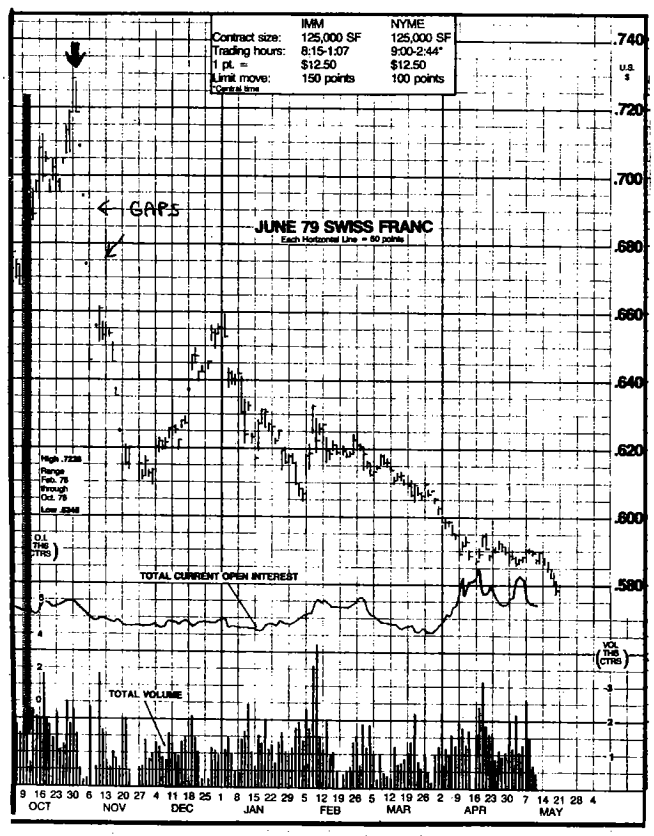
My 2x6 P&F chart of London gold (page 8) shows that a truly incredible structure is forming in gold, and I must confess that I've never seen anything exactly like this chart. I have been drawing in all kinds of trendlines, and the ones that seem to make most sense are shown here. Upside resistance would seem to be critical at the 260-262 level, and if the upper trendlines (at 262) don't halt the current gold advance, the metal could turn extremely speculative and "blow-off" to points north.

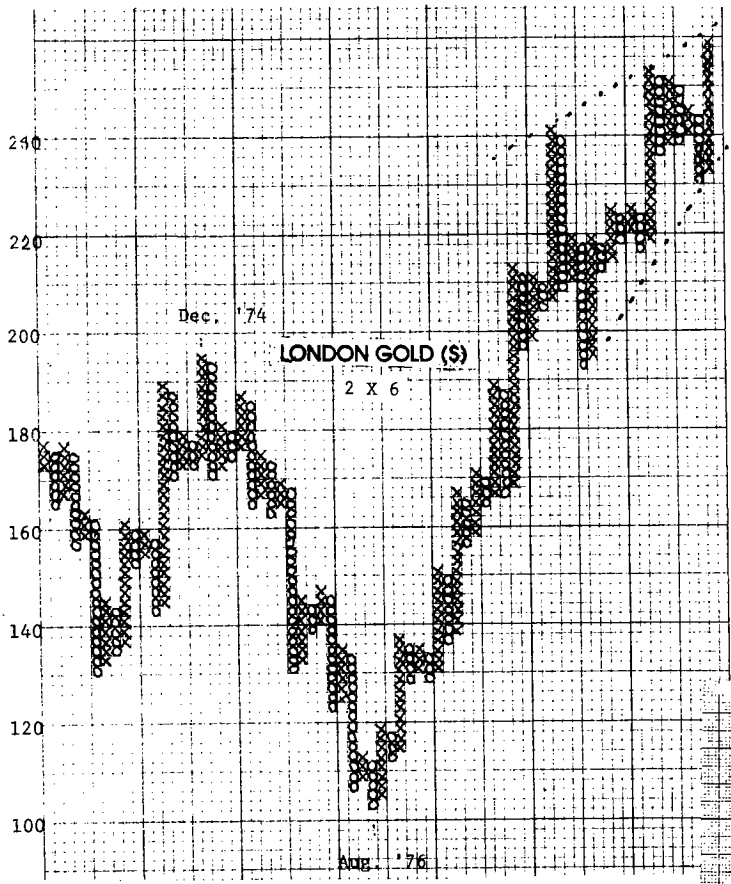
* *

Spent a most interesting evening with Walt and Theresa Bressert. Walt runs HAL Commodity Cycles, and he is a brilliant student of cycles and a well-known commodity man. Walt noted that the four year cycle (which has received so much publicity) seems to have "disappeared" this time. Since the last market cycle low was 1974, the four year (or four-and-a-half year) cycle should have shown (along with a major market bottom) during 1978 or early 1979. Where is it? Walt also stated, "There's too much pessimism around, too many people forecasting depression and the end. It's all too well advertised. And it isn't going to happen!" Let's all hope that Mr. Bressert is right!

* *

The dollar (as I believed it would) is now turning "super-strong." The franc and mark have just broken to new lows (again) and it looks like the sharp rally in the yen has peaked. The higher interest rates in the US should attract money here, but I think the oil crisis (which is slowing down the US economy) is probably a plus in the eyes of foreigners. This daily chart (from Commodity Price Charts, Cedar Falls, Idaho) shows the terrific smash in the Swiss franc (June futures) which began last October. As you can see, the franc broke again last week, after moving sideways all during April to mid-May. What do I think? I think the dollar's going to get even stronger, and the franc, mark and yen are going lower.





On the downside, it is well to note that the 4-week moving average (MA) of gold is 240, the 13-week MA is 242 and the 50-week MA is 219. Therefore, the first hint of trouble would be a drop in London gold below 250, then below 240.

The third gold chart shows daily London gold superimposed on the daily gold stock average (GSA). For valid movements, the two items should confirm each other. The peak for GSA occurred last October at just over 35. Gold has since advanced to new all-time highs. GSA, although it has confirmed in a secondary sense (rising above 31 last week), has not yet bettered its high of last October.

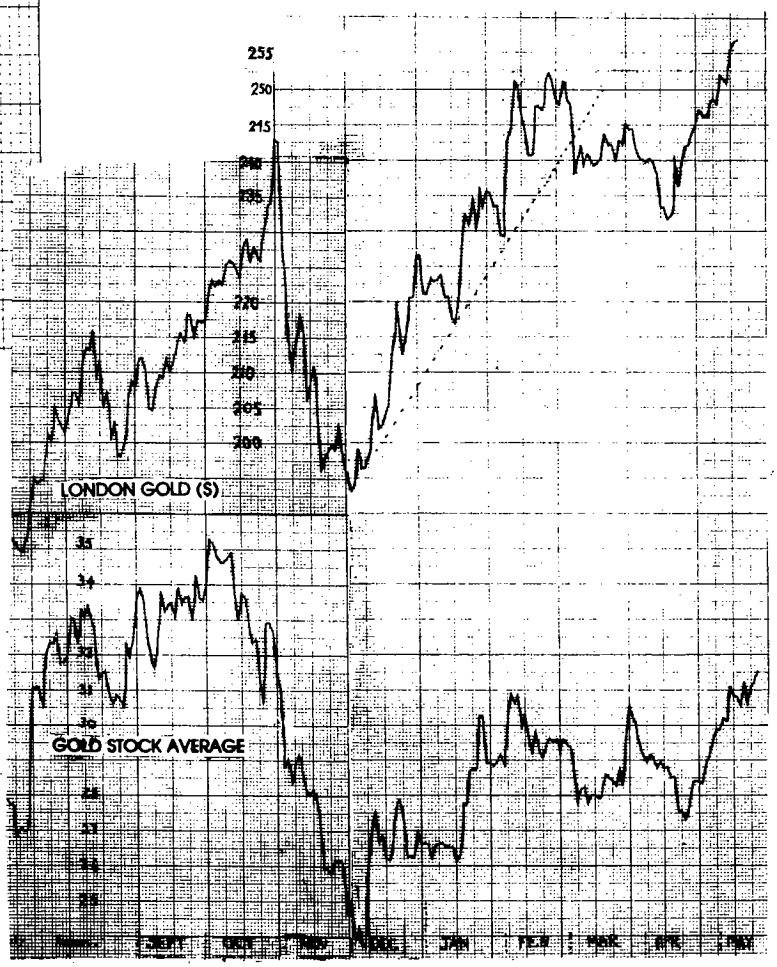
This is strange action, and it would seem to be a warning that all is still not right in the gold picture. My own guess is that gold is actually in a A-B-C flat correction with the current 257 price constituting a "B-leg" which has taken gold to a new high (not too unusual in flat corrections) above the October and February highs. I feel that the gold average is one of the few hints we have to suggest that "something is wrong."

If AJ Frost and I are proven correct in that the gold action since last October is all part of an A-B-C flat correction, then I would expect gold to move down and hit the 200 area in due time.

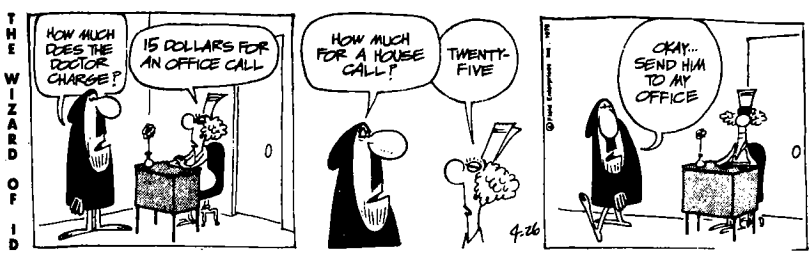
From the practical standpoint, I continue to suggest that subscribers hold roughly 10% of their assets in gold coins. This is our "chaos hedge" or "survival kit" or whatever you chose to call it. I believe these coins should be kept in the bank vault for safekeeping.

LATE NOTES: One of the extraordinary things about the current stock market is that there are no follow-ups on the big daily news. For instance, on May 14 the Dow exploded up 14 points. Then–nothing. This has happened many times this year–on both the upside and the downside. There is nothing more frustrating to a trader than a market that has no follow through. It means that he takes his position–and is then left stranded. Maybe that's what this market is trying to do, simply discourage traders. At any rate, we're in Treasury bills and don't have to go through the agony of a market that pops and then goes dead. Which is easy on the nerves and on the pocketbook, and that's the way I want it.

NEXT MAILING: June 6th



To end on a smile, the Wizard, shrewd little devil that he is, has found a way to beat the high cost of medicine.


THE WIZARD OF ID
HOW MUCH DOES THE DOCTOR CHARGE?
15 DOLLARS FOR AN OFFICE CALL
HOW MUCH FOR A HOUSE CALL?
TWENTY-FIVE
OKAY... SEND HIM TO MY OFFICE
4-26